



BOULT ■ CUMMINGS
CONNERS ■ BERRY^{PLC}

RECEIVED

Henry Walker
02 NOV 5 AM 8 47 (615) 252-2363
Fax: (615) 252-6363
Email: hwalker@boultoncummings.com

TN REGULATORY AUTHORITY
DOCKET ROOM

November 4, 2002

The Honorable Sara Kyle
Chairman
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243

DOCKET NO.

02-0/202

Re: Application for Approval of the Transfer of Control of XO Tennessee, Inc. from XO Communications, Inc., Debtor-In-Possession, to a Reorganized XO Communications, Inc. Controlled by High River Limited Partnership

Dear Chairman Kyle:

Enclosed please find an original and thirteen copies of the above-captioned application for filing with the Tennessee Regulatory Authority (the "Authority") along with a check in the amount of \$25.00 for the filing fee.¹

This application requests TRA approval of a transfer of control of XO Tennessee, Inc. from one parent company to another. The transfer is a result of the reorganization of the parent company and will have no impact on rates and services in Tennessee.

The Applicants request that the TRA approve this application no later than Dec, 16, 2002.

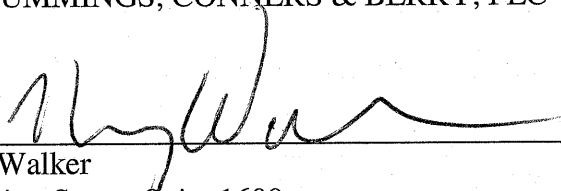
¹ This is the second plan of reorganization of XO Communications, Inc. ("XO") presented to the Authority for approval – the first plan, involving Telmex and Forstmann Little, was approved by the Authority on June 12, 2002 in Docket No. 02-00525. As described in the enclosed Application, however, the first plan will not be implemented. Instead, the reorganization of XO to emerge from bankruptcy will be accomplished pursuant to an alternate plan described in the enclosed Application – the "Stand-Alone Plan."

The Honorable Sara Kyle
November 4, 2002
Page Two

Respectfully submitted,

BOULT, CUMMINGS, CONNERS & BERRY, PLC

By: _____


Henry Walker
414 Union Street, Suite 1600
P.O. Box 198062
Nashville, Tennessee 37219
(615) 252-2363

cc: Dana Shaffer
Nicholaus G. Leverett, Esq.
Marissa G. Repp, Esq.

**BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE**

Application for Approval of the Transfer of)
Control of XO Tennessee, Inc. from XO)
Communications, Inc., Debtor-In-Possession, to a) Docket No. _____
Reorganized XO Communications, Inc.)
Controlled by High River Limited Partnership)
)

**APPLICATION FOR APPROVAL OF TRANSFER OF CONTROL AND REQUEST
FOR EXPEDITED TREATMENT**

This Application seeks Tennessee Regulatory Authority (the "Authority") approval, to the extent required, of a transfer of control of XO Tennessee, Inc. ("XO Tennessee"), from its parent, XO Communications, Inc., Debtor-in-Possession ("XO" or the "Company"), to a newly reorganized XO Communications, Inc. ("Reorganized XO"), a majority of whose stock will be owned by High River Limited Partnership ("High River"), a Delaware limited partnership ultimately controlled by Carl C. Icahn, in accordance with a plan of reorganization for XO's emergence from its current bankruptcy proceeding.¹ XO, XO Tennessee and Reorganized XO, as controlled by High River, are referred to herein collectively as the "Applicants."

This is the second plan of reorganization presented to the Authority. On June 12, 2002, the Authority approved a transfer of control pursuant to a reorganization plan that contemplated an \$800 million investment by an indirect, wholly owned subsidiary of Telefonos de Mexico,

¹ Meadow Walk Limited Partnership ("Meadow Walk"), a Delaware limited partnership also ultimately controlled by Carl C. Icahn, holds XO notes, which will entitle it to an approximate 1.4% equity interest in Reorganized XO. The majority and controlling interest in Reorganized XO, however, will be issued to High River. Shortly after High River and Meadow Walk acquire the stock of Reorganized XO, they may distribute such stock so that it will be held by Cardiff Holding LLC ("Cardiff"). Cardiff is a Delaware limited liability company, which is ultimately controlled by Carl C. Icahn. Consequently, references in this Application to High River also refer, where appropriate, to Cardiff, as potential holder of the majority of the stock of Reorganized XO. Cardiff is a newly created limited liability company not currently engaged in any business but formed for the purpose of holding the interest in Reorganized XO, should it be deemed desirable to do so.

S.A. de C.V. ("Telmex") and by funds affiliated with Forstmann Little & Co. ("Forstmann Little") in exchange for approximately 80% of the reorganized company's equity and the elimination of most of the Company's unsecured debt and all of its existing equity (the "Forstmann Little/Telmex Plan").² The Forstmann Little/Telmex Plan was premised on the terms of a Stock Purchase Agreement dated January 15, 2002 ("Purchase Agreement"). While that application was pending, XO notified the Authority that on June 17, 2002, XO had filed a petition with the U.S. Bankruptcy Court for the Southern District of New York ("Bankruptcy Court") pursuant to Chapter 11 of the U.S. Bankruptcy Code, seeking temporary protection from claims of creditors while the Company reorganized its operations and restructured its finances.³ Although the reorganization of XO according to the Forstmann Little/Telmex Plan was confirmed by the Bankruptcy Court on August 26, 2002, and the Federal Communications Commission granted XO's applications on October 3, 2002, the Forstmann Little/Telmex Plan will not be implemented. XO, Forstmann Little and Telmex have reached an agreement pursuant to which the Purchase Agreement will be terminated and any potential claims relating to the Purchase Agreement or its termination will be settled. The termination of the Purchase Agreement is subject to Bankruptcy Court approval, which was applied for on October 15, 2002.

The bankruptcy filing developed by XO contained an alternate reorganization plan. In light of the pending termination of the Purchase Agreement, XO plans to proceed with this alternate plan – the "Stand-Alone Plan" – to emerge from bankruptcy. The Stand-Alone Plan, described more fully below, was previously proposed to the Bankruptcy Court, and voted upon

² See Order Approving Transfer of Authority, Docket No. 02-00525 (June 12, 2002).

³ See *In re XO Communications, Inc.*, Case No. 02-12947 (AJG) (Bankr.S.D.N.Y.), filed June 17, 2002.

by creditors, but has not yet been confirmed by the Bankruptcy Court.⁴ It is currently anticipated that the Bankruptcy Court will hold a hearing to consider the confirmation of the Stand-Alone Plan in mid-November 2002. Like the Forstmann Little/Telmex Plan, the Stand-Alone Plan involves the elimination of unsecured debt and existing equity and the issuance of new equity. Indeed, while both plans would eliminate \$3.7 billion of XO's unsecured debt, under the Stand-Alone Plan, an additional \$0.5 billion of XO's secured debt will be eliminated. Specifically, under the Stand-Alone Plan, the outstanding shares of stock of XO would be cancelled, and \$500 million of the \$1 billion in existing loans under XO's secured credit facility would be converted into 95% of the new initial common stock of Reorganized XO, with the remaining \$500 million to be converted into a \$500 million pay-in-kind junior secured loan. XO note holders and general unsecured creditors collectively would receive the remaining 5% of this initial common equity. As a result of High River's holdings in XO debt, High River would be issued no less than 80% of the new initial common stock of Reorganized XO (before giving effect to the exercise of rights in the rights offering described below.)

Reorganized XO may seek to obtain funds through a \$200 million rights offering. Pursuant to this rights offering, certain of the Company's creditors, including Meadow Walk, and certain holders of equity interests will have rights to acquire on a *pro rata* basis up to 40,000,000 shares of stock of Reorganized XO, after which the unexercised rights will be available to the holders of senior debt, including High River. However, even if all of these shares were issued to other parties, High River's equity interest in Reorganized XO would not be diluted below 50%.

⁴ The Stand-Alone Plan is described in the "Disclosure Statement With Respect to the Third Amended Plan of Reorganization for XO Communications, Inc.," dated July 22, 2002 ("Disclosure Statement") and filed with the Bankruptcy Court. In its "Order Confirming Third Amended Plan of Reorganization" issued on August 26, 2002, the Bankruptcy Court reserved XO's rights to proceed with the Stand-Alone Plan. On October 15, 2002, XO filed notice with the Bankruptcy Court of its intention to proceed with the Stand-Alone Plan.

Any shortfall from the rights offering may be covered by new secured loans ranking senior to the junior secured loan, although no agreements for this financing have been reached. The Stand-Alone Plan also provides for the grant of stock options to Reorganized XO management and three series of warrants, exercisable over a seven-year period, to XO note holders and general unsecured creditors for the purchase of additional common stock at a premium. Consummation of the Stand-Alone Plan is subject to a number of conditions, including the receipt of Bankruptcy Court and regulatory approvals.⁵

By this Application, the Applicants respectfully request that the Authority take any action it deems necessary to expeditiously approve the transfer of control of XO Tennessee to the Reorganized XO, a majority of whose stock will be owned by High River, pursuant to the Stand-Alone Plan. As discussed below, the public benefits associated with the Stand-Alone Plan are similar to the benefits associated with the Forstmann Little/Telmex Plan. Because the Authority took these benefits into account in approving the Forstmann Little/Telmex Plan, the Authority should approve the Stand-Alone Plan as well. The Stand-Alone Plan is similar to the Forstmann Little/Telmex Plan in that neither involves the transfer of operating authority – *i.e.*, XO Tennessee will continue to provide the same high quality services in an uninterrupted manner. Upon completion of the proposed transfer of control, XO Tennessee will continue to provide intrastate telecommunications services in Tennessee under the same name and pursuant to its

⁵ Prior to XO's bankruptcy, Craig O. McCaw controlled (primarily through control of Eagle River Investments LLC) or had rights to vote shares of common stock that in the aggregate represented more than 50% percent of the voting power of XO common stock. In light of the Company's Debtor-in-Possession status, Mr. McCaw's control of XO is very limited. This Application, accordingly, seeks approval for a transfer of control of XO's subsidiaries in Tennessee from XO, Debtor-in-Possession, to the Reorganized XO, as controlled by High River. Based on the current holdings of XO's debt securities, no other shareholder is expected to hold 10% or more of Reorganized XO.

existing authorizations and tariffs. Accordingly, the transfer of control also will be transparent to customers in Tennessee.

Because the Authority has very recently considered the public benefits associated with the successful reorganization of XO, the Applicants request expedited approval of this Application. Nearly a year has elapsed since XO began its restructuring efforts, and it is becoming more important for XO to complete its restructuring quickly so as to avoid any disruption of service to XO's current customers. It currently is anticipated that the Bankruptcy Court will confirm the Stand-Alone Plan in mid-November 2002, and the parties would be closing this transaction as soon thereafter as possible. Thus, it is essential that the parties obtain swift regulatory approval to consummate the current proposal. They respectfully request approval no later than December 16, 2002.

DESCRIPTION OF THE RELEVANT PARTIES

XO. As described in XO's initial filing, XO Tennessee is a wholly owned subsidiary of XO Communications, Inc., a Delaware corporation (XOXOQ on the OTC-Bulletin Board). All are headquartered at 11111 Sunset Hills Road, Reston, Virginia 20190. Through its operating subsidiaries, XO provides bundled local and long distance as well as dedicated voice and data telecommunications services primarily to business customers. It operates broadband fiber optic networks in more than 60 cities in the United States and serves 25 of the largest metropolitan areas in the United States. The Company also is one of the nation's largest holders of fixed wireless spectrum, covering 95% of the population of the 30 largest U.S. cities, and has deployed fixed wireless technology in 27 of these cities.

XO is authorized, through its subsidiaries, to provide intrastate interexchange services virtually nationwide, including in Tennessee, and is authorized to provide local exchange

services in approximately 30 states, including Tennessee.⁶ The Company also offers domestic and international telecommunications services pursuant to FCC Section 214 authorizations. The Company's international offerings are incidental to its core domestic business.

Prior to the initiation of the bankruptcy proceeding, XO was controlled by Craig O. McCaw, but following the consummation of the Stand-Alone Plan, it is expected that Mr. McCaw and affiliated interests will not hold any significant equity interest in XO.

REORGANIZED XO AS CONTROLLED BY HIGH RIVER LIMITED PARTNERSHIP

Pursuant to the Stand-Alone Plan, XO – the parent of XO Tennessee – will emerge from bankruptcy. A majority of the stock of Reorganized XO will be held by High River, a Delaware limited partnership located at 767 Fifth Avenue, Suite 4700, New York, New York 10153. Carl C. Iahn, a U.S. citizen, ultimately controls and has a majority ownership interest in High River through his ultimate control and ownership of its general and limited partners. The general partner of High River is Barberry Corp. (“Barberry”), a Delaware corporation. Carl C. Iahn owns 100% of Barberry's stock. Barberry holds an approximate 1% partnership interest in High River. High River has two limited partners. One limited partner is Chelonian Corp. (“Chelonian”), a New York corporation. Carl C. Iahn controls either directly or indirectly approximately 99% of Chelonian's stock. Chelonian holds an approximate 91% partnership interest in High River. The other limited partner in High River is Highcrest Investors Corp. (“Highcrest”), a Delaware corporation. Carl C. Iahn controls either directly or indirectly approximately 99.5% of Highcrest's stock. Highcrest holds an approximate 8% partnership interest in High River.

⁶ See Docket No. 98-0252, granted September 29, 1995.

High River is engaged in the business of buying, selling, investing and holding securities and debt obligations. Neither High River, Carl C. Icahn nor any of their affiliates controls or holds a substantial interest in any telecommunications company.

The Reorganized XO will continue to possess the managerial, technical and financial qualifications to provide, through its subsidiaries, telecommunications services in Tennessee. High River generally plans to retain XO's current management team and will continue to rely on the experienced cadre of managers, technicians and other professionals who now operate XO's networks and provide service to the public. Of course, over time there may be management changes as deemed appropriate by the Board of Directors. Financially, as discussed below, the Reorganized XO will benefit from a major reduction in its current debt as well as potential additional funding through the Rights Offering or the additional loan. Attached hereto as *Exhibit A* are *pro forma* balance sheets and operating statements for the Reorganized XO demonstrating its financial qualifications upon emerging from bankruptcy under the Stand-Alone Plan. Of special significance is the fact that the reorganized company is expected to have \$387 million in cash or cash equivalents available to it. The *pro forma* financial statements were prepared by XO and are contained in the Disclosure Statement approved by the Bankruptcy Court and distributed to the bankruptcy claimants. The attached financial statements do not reflect any funds from the Rights Offering but do reflect future borrowing under the Additional Loan discussed below.

DESIGNATED CONTACTS

The designated contacts for communications concerning this Application are:

Brad E. Mutschelknaus
James J. Freeman
Nicholaus G. Leverett
KELLEY, DRYE &

Peter A. Rohrbach
Marissa G. Repp
Ari Q. Fitzgerald
HOGAN & HARTSON L.L.P.

WARREN, LLP
1200 19th Street, N.W.
Suite 500
Washington, D.C. 20036
Telephone: (202) 887-1212
Fax: (202) 955-9792

555 Thirteenth Street, N.W.
Washington, D.C. 20004-
1109
Telephone: (202) 637-5600
Fax: (202) 637-5910

Copies of any correspondence relating to this Application also should be sent to:

Cathleen A. Massey
Vice President – External Affairs/Assistant General Counsel
XO COMMUNICATIONS, INC.
11111 Sunset Hills Road
Reston, VA 20190-5339

Telephone: (703) 547-2361
Fax: (703) 547-2881

DESCRIPTION OF THE STAND-ALONE PLAN

The Stand-Alone Plan is similar to the Forstmann Little/Telmex Plan in that it involves the elimination of unsecured debt and existing equity and the issuance of new equity of XO. As noted above, while both plans would eliminate \$3.7 billion of XO's unsecured debt, under the Stand-Alone Plan, an additional \$0.5 billion of XO's secured debt will be eliminated. Each component of the Stand-Alone Plan is discussed below.

A. Conversion of Secured Loans

With the approval of the Bankruptcy Court, \$500 million in existing senior secured loans will be converted into 95% of the initial issue of Reorganization Common Stock (90,250,000 shares)⁷ through the issuance of shares *pro rata* to holders of the senior secured loans

⁷ Reorganized XO will be authorized to issue 1,200,000,000 shares of new equity, which will consist of 1,000,000,000 shares of common stock ("Reorganization Common Stock") having a par value of \$0.01 per share, and 200,000,000 shares of undesignated preferred stock, which will have a par value of \$0.01 per share. Holders of Reorganization Common Stock will have one vote per share and will be eligible to vote on all matters that come before the stockholders, including election of the Board of Directors. All holders of Reorganization Common Stock will have the same voting rights and will vote together as a single class.

outstanding of XO ("Senior Secured Debt"). The remaining 5% (4,750,000 shares) of Reorganization Common Stock will be issued to the holders of senior notes ("Senior Notes") and other general unsecured claims to be divided *pro rata* according to the amount of their claims.⁸

At the same time, the remaining \$500 million in secured debt will be converted into an amended and restated debt facility (the "Junior Loan") in the principal amount of \$500 million. Reorganized XO will be the borrower under the Junior Loan, and all current and future subsidiaries of Reorganized XO will guarantee payment under the facility and provide a security interest in their assets. The Junior Loan may be subordinated to a possible new senior credit facility (the "Additional Loan") of up to \$200 million which may, among other things, compensate for any shortfall in funds from the rights offering described below.

B. Other Existing Debt and Equity

XO's existing common and preferred stock and most other unsecured debt will be cancelled upon XO's emergence from bankruptcy. Note holders and general unsecured creditors will receive 5% of the initial Reorganization Common Stock as discussed above, and they and the former equity holders may have the right to acquire Reorganization Common Stock as described below.

C. Rights Offering

The Reorganization Common Stock issued to holders of Senior Secured Debt, Senior Notes and other general unsecured claims may be subject to immediate dilution through a "Rights Offering" of 40,000,000 shares of Reorganization Common Stock (the "Rights Shares")

⁸ As indicated in footnote 1, *supra*, Meadow Walk, a limited partnership ultimately controlled by Carl C. Icahn, will be issued an approximate 1.4% interest in Reorganization Common Stock as a result of its ownership of XO Senior Notes.

valued at \$5.00 per share for an aggregate of \$200 million.⁹ Assuming 40,000,000 shares of Reorganization Common Stock are issued in the Rights Offering, the Rights Shares would represent approximately 29.6% of the outstanding shares of Reorganization Common Stock.¹⁰

The Rights Offering is expected to commence at or shortly after closing of the bankruptcy plan, subject to the receipt of any required approvals. Holders of Senior Notes, general unsecured claims, subordinated note claims, old preferred stock interests, and old common stock interests will have the opportunity to exercise rights to subscribe to any or all of the Rights Shares for approximately 30 days after the commencement of the Rights Offering. These rights are not transferable. Thereafter, transferable rights will be issued to holders of Senior Secured Debt covering any Rights Shares not already subscribed. These transferable rights will expire approximately 30 days after grant. As is evident, it is not possible to now determine who will exercise rights or how many shares they might be able to acquire.

D. New Warrants and Management Incentive Program

Three series of warrants will be issued under the Stand-Alone Plan to holders of Senior Notes and other general unsecured claims. These warrants will enable holders to purchase specified amounts of Reorganization Common Stock at prices representing a premium to the assumed pre-Rights Offering equity value of Reorganized XO. These warrants will expire seven years after they are issued.¹¹

⁹ Additional Rights Shares may be issued as necessary to assure that holders of old XO Class A common stock interests have an opportunity to acquire at least 3,333,333 Rights Shares.

¹⁰ If rights to an additional 3,333,333 Rights Shares are given to holders of old XO Class A Common Stock Interests, the Rights Shares would represent approximately 31.3% of the shares of outstanding Reorganization Common Stock following their issuance.

¹¹ Specifically, holders of New Series A Warrants will be able to purchase a defined *pro rata* share of 9,500,000 newly issued Reorganization Common Stock at an exercise price of \$6.25 per share; holders of New
... continued

Finally, the Stand-Alone Plan includes provision for the adoption of a stock option plan. This plan would enable Reorganized XO to grant options exercisable over several years to acquire up to 10% of the shares of Reorganization Common Stock to the officers, employees, and directors of Reorganized XO and its subsidiaries. Again, it is not possible now to determine who will exercise their rights under the warrants and options to acquire Reorganized XO shares.

E. Estimated Ownership Percentages

High River currently holds approximately 84.7% of XO's Senior Secured Debt, some of which was acquired through a tender offer for any and all Senior Secured Debt commenced on August 21, 2002. High River may, from time to time, acquire additional Senior Secured Debt. As the holder of such Senior Secured Debt, upon issuance of the initial Reorganization Common Stock, High River will be issued no less than 80% of the equity of Reorganized XO¹² and will have the ability to designate a majority of the members of Reorganized XO's board of directors.¹³ No shareholder other than High River is expected to hold 10% or more of the initial Reorganization Common Stock.

As noted above, it is, of course, impossible to determine now the results of the exercise of the rights or warrants. The Rights Offering may dilute High River's holdings of Reorganization Common Stock. However, High River will continue to hold a majority of the shares of

Series B Warrants, 7,125,000 shares at an exercise price of \$7.50 per share; and holders of New Series C Warrants, 7,125,000 shares at an exercise price of \$10.00 per share.

¹² Meadow Walk, which, as noted above, is a limited partnership ultimately controlled by Carl C. Icahn, currently owns approximately \$1,415,185,500 in principal amount of various tranches of the Senior Notes, representing approximately 30% in principal amount of such Notes. Under the Stand-Alone Plan, Meadow Walk's interest in the initial Reorganization Common Stock will be approximately 1.4%.

¹³ Pursuant to the Stand-Alone Plan, two of the seven directors will be representatives of management, and if the Rights Offering raises at least \$150 million, the holders of these Rights Shares will name one of the directors. In any event, High River will have the right to designate a majority of the board of directors of Reorganized XO.

Reorganized XO after the Rights Offering.¹⁴ Because numerous entities and individuals will be given the chance to participate in the Rights Offering, and any individual or entity could purchase any or all of the Rights Shares, it is not possible to be certain that no individual or entity other than High River will hold 10% or more of Reorganized XO's stock upon conclusion of the Rights Offering. The Applicants do not anticipate, however, that any individual or entity other than High River would hold a 10% or greater ownership interest in Reorganized XO at the time the Rights Offering expires. Appended hereto as *Exhibit B* are organizational charts showing the ownership of XO pre-bankruptcy reorganization and post-bankruptcy reorganization under the Stand-Alone Plan.

NEW CREDIT FACILITIES

As noted above, \$500 million of the current \$1 billion dollar outstanding credit facility will be cancelled by issuing new common stock in Reorganized XO to the lenders. The remaining \$500 million of the existing facility will be converted into the Junior Loan. In addition, XO may seek to borrow up to \$200 million in additional funds, especially if its proposed Rights Offering brings in less than the \$200 million expected. The Additional Loan would be on a secured basis and would be superior to the Junior Loan.

¹⁴ Even if High River does not purchase stock in the Rights Offering and 40,000,000 Rights Shares are fully subscribed, High River would still control in excess of 50% of the total issued and outstanding Reorganization Common Stock at the time the Rights Offering expires.

Exercise of the New Series A, New Series B, and New Series C Warrants would further dilute High River's holdings. However, there can be no certainty if or when these warrants would ever be exercised, because the exercise period stretches over seven years and the exercise price for each series represents a premium to the assumed pre-Rights Offering equity value of Reorganized XO.

PUBLIC INTEREST ANALYSIS

Approving the transfer of control of XO Tennessee to Reorganized XO pursuant to the Stand-Alone Plan is in the public interest. The Authority already has approved the now terminated Forstmann Little/Telmex Plan. A key aspect of that plan was XO's emergence from bankruptcy with a strengthened balance sheet that allows for better access to the capital markets. The Stand-Alone Plan accomplishes this goal by reducing significantly XO's indebtedness. In either case, the resulting benefits are a recapitalized and reorganized XO that may continue to operate through the same subsidiaries, under the same names and with the same operating authorities. Any future changes in the entity providing service or its name would be effected in accordance with any applicable Authority requirements.

Moreover, like the Forstmann Little/Telmex Plan, the Stand-Alone Plan does not involve any transfer of authorizations or change in carriers providing service to customers, or any change in the rates, terms or conditions of service as a result of the transaction. Finally, as with the Forstmann Little/Telmex Plan, under the Stand-Alone Plan, subject to direction of the Board of Directors, it is generally planned that XO's current management team will continue to operate XO's networks and provide service to the public. Accordingly, XO's management and the contact for customer and Authority inquiries will remain the same for the operating subsidiaries of XO after the transfer of control:

Cathleen Massey
Vice President – External Affairs/Assistant General Counsel
XO COMMUNICATIONS, INC.
11111 Sunset Hills Road
Reston, VA 20190-5339
Telephone: (703) 547-2361
Fax: (703) 547-2881

Thus, the transfer of control of XO Tennessee for which approval is requested by this Application will be transparent to customers and will not have any adverse impact on them. The only changes caused by this transaction are in the ultimate ownership and financial condition of the parent of the operating subsidiaries.

As stated in XO's previous application, the proposed reorganization is necessary for XO to survive in the telecommunications market. XO and other emerging telecommunications companies have suffered over the past year amid the downturn in the technology and communications markets, slowing demand, and a marked tightening of capital markets as investors shied away from funding enterprises that were not generating net profits or had unfunded business plans. XO's results of operations have remained relatively strong. However, XO has not had access to the capital markets to address its funding needs and XO's business plan is not fully funded. Therefore, without this restructuring, XO's financial stability could be significantly compromised. At that point, services to consumers in Tennessee and elsewhere could be adversely affected. The proposed reorganization pursuant to the Stand-Alone Plan will allow XO to build upon its solid foundation with a strengthened balance sheet, significantly reduced debt and additional funding. The proposed transaction should enable XO to continue to provide high quality local, long distance, and broadband services to its customer base, thereby serving the public interest.

WHEREFORE, the Applicants respectfully request that the Authority approve the transfer of control XO Tennessee from XO Tennessee to Reorganized XO pursuant to the Stand-Alone Plan as described herein, and grant such other and further relief as it deems necessary. Because the continued operation and success of XO depends on the consummation of the

restructuring described herein, it is respectfully requested that the Authority act on this application as expeditiously as possible, and no later than December 16, 2002.

Respectfully submitted,

By:


Of Counsel

Henry M. Walker

BOULT, CUMMINGS,

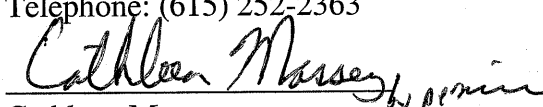
CONNORS & BERRY, PLC

414 Union St, Suite 1600

P.O. Box 198062

Nashville, TN 37219

Telephone: (615) 252-2363


Cathleen Massey

Vice President – External

Affairs/Asst. General Counsel

XO COMMUNICATIONS, INC.

11111 Sunset Hills Road

Reston, VA 20190-5339

Telephone: (703) 547-2361

Of Counsel:

Brad E. Mutschelknaus, Esq.

James J. Freeman, Esq.

Nicholaus G. Leverett, Esq.

KELLEY DRYE & WARREN, LLP

1200 19th Street, N.W.

Suite 500

Washington, D.C. 20036

Telephone: (202) 955-9600

Of Counsel:

Peter A. Rohrbach, Esq.

Marissa G. Repp, Esq.

Ari Q. Fitzgerald, Esq.

HOGAN & HARTSON L.L.P.

555 Thirteenth Street, N.W.

Washington, D.C. 20004-1109

Telephone: (202) 637-5600

Dated this 4th day of November, 2002.

PRO-FORMA FINANCIALS

Summary of Significant Assumptions

The Company has developed the Plan B Projections (summarized below) to assist both creditors and shareholders in their evaluation of the Stand-Alone Plan and to analyze its feasibility. **THE PLAN B PROJECTIONS ARE BASED UPON A NUMBER OF SIGNIFICANT ASSUMPTIONS DESCRIBED BELOW. ACTUAL OPERATING RESULTS AND VALUES WILL VARY FROM THOSE PROJECTED.**

a. Fiscal Years. The Company's fiscal year ends on December 31 of each year. Any reference to "Fiscal" immediately followed by a specific year means the 52 week period ending on December 31 of such year. The Projections assume that all fiscal years contain 52 weeks of projected results of operations.

b. Plan Terms and Consummation. The Plan B Projections assume an Effective Date of September 30, 2002 with Allowed Claims and Interests treated in accordance with the treatment provided in the Stand-Alone Plan with respect to such Allowed Claims and Interests. If the Effective Date does not occur by September 30, 2002, additional bankruptcy expenses will be incurred until such time as a new plan of reorganization is confirmed. This delay could significantly impact the Company's results of operations and cash flows.

c. Assumptions Preceding the Effective Date. As a basis for the Plan B Projections, management has estimated the operating results for the period of time leading up to the Effective Date and has made assumptions with respect to the impact that the reorganization process will have on operations prior to the Effective Date. Specifically, it has been assumed that during the Chapter 11 cases, key vendors will continue to provide the Company with services and/or goods on customary terms and credit.

d. General Economic Conditions. The Plan B Projections were prepared assuming that economic conditions in the markets served by the Company do not differ significantly over the next three years from current economic conditions. Inflation in revenues and costs are assumed to remain relatively low.

e. Revenues. Revenues are broken down into five product lines within the Company: (i) voice, (ii) Internet access, (iii) network access, (iv) web hosting, and (v) integrated voice and data services. Revenues from voice continue to grow through the projected period, but decline as percentage of total revenues primarily as a result of the projected growth in data and integrated products. The projected growth in integrated products is in large part attributable to the assumed success of XOptions, a flat-rate, bundled package offering a combination of voice and data services.

f. Cost of Service. Cost of service represents those costs directly associated with providing telecommunications services to the Company's customers. Cost of service includes, among other items, the cost of connecting customers to the Company's networks via leased facilities, the cost of leasing components of the Company's network facilities and costs paid to third party providers for interconnect access and transport services. The improvement in cost of sales as measured as a percentage of revenue is largely attributable to three factors during the projected periods: (i) increase of on-net traffic (the Company-owned network traffic) as a percentage of total network traffic, (ii) expanded sales of higher margin data products, and (iii) leveraging of fixed costs through the addition of incremental customers.

g. Selling, Operating and General Expenses. Selling, operating and general expenses ("SOG") consist of sales, marketing, customer service and administrative expenses, as well as network provisioning, engineering and operating costs. The increase in the aggregate amount of SOG in the projections is largely attributable to the addition of incremental employees and service and support infrastructure to sustain projected revenue growth. However, SOG as a percentage of revenues is projected to decline in keeping with the Company's increasing success in leveraging its corporate infrastructure as economies of scale under a national footprint are realized.

h. Adjusted EBITDA. Adjusted EBITDA is defined, for purposes of the Plan B Projections, as earnings before net interest expense, income tax provision, depreciation and amortization, unusual items, reorganization items, and extraordinary items.

i. Net Interest Expense. Net interest expense reflects interest expense on outstanding borrowings under the Company's new senior secured Exit Facility, the \$500.0 million in initial principal amount of New Junior Secured Loans and on obligations under capital leases and other secured indebtedness. Net interest expense also reflects estimated interest income with respect to balances of cash and cash equivalents held by the Company. Please refer to "X. Description of Securities to be Issued Under the Stand-Alone Plan" for discussion of securities to be issued under the Stand-Alone Plan.

j. Extraordinary Gain. Extraordinary gain reflects the early extinguishment of indebtedness resulting from the restructuring of the Company's balance sheet pursuant to the Stand-Alone Plan.

k. Income Taxes. The Plan B Projections assume that, upon consummation, the Reorganized Company and its Operating Subsidiaries will not have the benefit of any tax net operating loss carry-forwards. The Plan B Projections also assume the Reorganized Company and the Operating Subsidiaries will not recognize a reduction in much of the tax basis of the Company's long-term assets as a result of debt forgiveness. (See "XI. Risk Factors" for related future tax issues the Company may encounter and need to consider)

l. Capital Expenditures. Capital expenditures primarily reflect network operating and success-based investments in the projected periods. Capital expenditures in 2002 also reflect investments necessary to complete several network projects already in progress, with the majority of expenditures for those projects having already occurred in prior years. The Company substantially completed its network build in 2001. Consequently, capital expenditures decline significantly in future periods in both absolute terms and as a percent of period revenues.

m. Working Capital. Components of working capital are projected primarily on the basis of historic patterns applied to projected levels of operation. It has been assumed that vendor trade terms return to normal levels in the post-Effective Date period.

n. Fresh Start Accounting. The Plan B Projections have been prepared generally in accordance with the basic principles of "fresh start" accounting for periods after September 30, 2002. These principles are contained in the American Institute of Certified Public Accountants Statement of Position 90-7 "Financial Reporting by Entities in Reorganization Under the Bankruptcy Code." Under "fresh start" accounting principles, the Debtors will determine the reorganization value of the reorganized Company at the Effective Date. This value will be allocated, based on estimated fair market values, to specific tangible or identifiable intangible

assets. The Company is in the process of evaluating further how the reorganization value will be allocated to its various assets. It is likely that the final allocation, as well as depreciation and amortization expense, will differ from the amounts presented herein.

a. Reorganization Value. For purposes of this Disclosure Statement and in order to prepare the Plan B Projections, management has estimated the reorganization value of the Company pursuant to the Stand-Alone Plan as of September 30, 2002 to be approximately \$1,000 million on a pre-Rights Offering basis. See "Valuation Analysis."

Special Note Regarding Forward-Looking Statements

Except for the historical information, statements contained in this Disclosure Statement and incorporated herein by reference, including the projections in this section, may be considered "forward-looking statements" within the meaning of federal securities law. Such forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results to differ materially from future results expressed or implied by such forward-looking statements. Potential risks and uncertainties include, but are not limited to, general economic and business conditions, the competitive environment in which the Company operates and will operate, the success or failure of the Company in implementing its current business and operational strategies, the level of trade creditor support, the ability of the Company to maintain and improve its operating margins, and the liquidity of the Company on a cash flow basis (including the ability to comply with the financial covenants of its credit arrangements and to fund the Company's capital expenditure program). For additional information about the Company and relevant risk factors, see "XI. Risk Factors."

Financial Projections

The financial projections prepared by management are summarized in the following tables. Specifically, the attached tables include:

5. Pro-forma reorganized consolidated Company balance sheet as of September 30, 2002 ("Estimated Pre-Consummation"), including all reorganization adjustments.
6. Projected balance sheets as of December 31, 2002 through December 31, 2005.
7. Projected income statements for the fiscal years ending December 31, 2002 through December 31, 2005.
8. Projected statements of cash flow for the fiscal years ending December 31, 2002 through December 31, 2005.

All captions in the attached projections do not correspond exactly to the Company's historical external reporting; some captions have been combined for presentation purposes. Please note that the individual amounts may not sum to the totals presented in the following financial statements due to rounding differences.

NO Communications, Inc.
Reorganized Balance Sheet

in millions

Pro-Forma Stand-Alone Balance Sheet September 30, 2001

	Projected Pre-Transaction	Revised/Preferred Reorganization	Projected Post-Exit/Pre-C Reorganization	Fresh Start Adjustments	Projected Closing-BE
Assets					
Cash & Cash Equivalents	\$434	(\$47) ^(a)	\$387	\$0	\$347
Accounts Receivable (net)	214	-	214	-	214
Other Current Assets	89	-	84	(\$1)	83
Total Current Assets	\$737	(\$47)	\$690	(\$1)	\$642
Net Property, Plant & Equipment	\$1,472	\$0	\$1,472	(\$2,444) ^(a)	\$228
Net Investment in Fixed Wireless Licenses	920	-	920	(\$37) ^(a)	883
Net Goodwill & Intangibles	123	-	123	(\$1) ^(a)	122
Other Assets	135	(\$71) ^(a)	64	(\$1) ^(a)	52
Total Assets	\$2,388	(\$118)	\$2,267	(\$2,483)	\$1,128
Liabilities & Shareholders' Equity					
Accounts Payable & Accrued Liabilities	\$250	\$0	\$250	(\$0)	\$250
Accrued Interest	323	(\$23) ^(a)	-	-	-
Other Current Liabilities	11	-	11	-	11
Total Current Liabilities	\$584	(\$23)	\$561	(\$0)	\$538
Long-Term Debt	\$5,182	(\$4,677) ^(a)	\$505	\$0	\$428
Other Long-Term Liabilities	110	-	110	(\$1) ^(a)	109
Total Long-Term Liabilities	\$5,292	(\$4,677)	\$615	(\$1)	\$537
Preferred Stock	\$1,796	(\$1,796) ^(a)	\$0	\$0	\$0
Total Shareholders' Equity	(\$1,796)	\$0	\$1,779	(\$3,484) ^(a)	\$428
Total Liabilities & Shareholders' Equity	\$2,388	(\$118)	\$2,267	(\$2,483)	\$1,128

Notes to Pro-Forma Reorganized Balance Sheet

- (a) The Stand-Alone Plan provides for, among other things, a restructuring of the Company through the exchange of 50% of the outstanding Senior Secured Lender Claims into 100% of all issued and outstanding shares of New Reorganization Common Stock and the exchange of 100% of the Company's outstanding Senior Note Claims and Class 5 General Unsecured Claims into New Warrants. The Stand-Alone Plan assumes that all claims, including accrued interest, related to all of the outstanding Senior Notes and General Unsecured Claims will be forgiven in exchange for the allocation of new securities outlined above. The adjustments reflect the cancellation of all Subordinated Note Claims and Old Preferred Stock Interests pursuant to the terms of the Stand-Alone Plan. Estimated restructuring fees associated with the Stand-Alone Plan approximate \$47 million (including an estimated \$6.0 million of fees related to the Exit Facility). Accrued interest has been adjusted to write-off all accrued and unpaid interest and dividends related to the Senior Notes, Subordinated Notes and Old Preferred Stock.
- (b) The Company proposes to account for the reorganization and the related transactions using the principles of "fresh start" accounting as required by Statement of Position 90-7 ("SOP 90-7") issued by the American Institute of Certified Public Accountants (the "AICPA"). The company has estimated a reorganization value of \$1,000 million on a pre-Rights Offering basis, \$475 million of which value is assumed to be attributable to shareholder's equity. In accordance with SOP 90-7, the reorganization value has been allocated to specific tangible and identifiable intangible assets and liabilities. The excess of the Company's historical tangible and identified intangible assets over the reorganization value is reflected as an adjustment to record these assets at their fair value. The Company is currently evaluating the value of various assets, including certain of its fixed assets and LMDS licenses, which may lead to

additional pro forma adjustments to book values and result in a different allocation of fair market values over the Company's tangible and identifiable intangible assets as of the Effective Date. The amount of shareholders' equity in the fresh start balance sheet is not an estimate of the trading value of the New Common Stock after confirmation of the Stand-Alone Plan, which value is subject to many uncertainties and cannot be reasonably estimated at this time. The Company does not make any representation as to the trading value of shares and warrants to be issued pursuant to the Stand-Alone Plan.

XO Communications, Inc. Pro forma Consolidated Statement of Operations - Plan B				
(\$ in millions)	For the Pro forma Fiscal Period Ending December 31,			
	2003	2003	2004	2005
Revenues				
Voice	\$661	\$646	\$783	\$830
Internet Access	135	131	133	146
Network Access	325	324	371	498
Web Hosting	51	51	59	66
Integrated	135	169	223	293
Total Revenues	\$1,307	\$1,341	\$1,539	\$1,833
Costs and Expenses				
Cost of Service	\$530	\$557	\$610	\$714
Selling, Operating, and General Expenses	763	771	806	899
Depreciation	446	133	170	213
Amortization	43	3	3	3
Deferred Compensation	0	-	-	-
Total Costs and Expenses	\$1,812	\$1,464	\$1,589	\$1,789
Profit (Loss) From Operations	(\$505)	(\$123)	(\$50)	\$45
Net Interest Expense	\$241	\$48	\$62	\$70
Other Expenses/(Income)	6	19	-	-
Pro Forma Fresh Start & Transaction Adjustments	308	-	-	-
Earnings Before Taxes	(\$1,040)	(\$170)	(\$112)	(\$13)
Income Taxes	-	-	-	-
Net Income (Loss)	(\$1,040)	(\$170)	(\$112)	(\$13)
Cumulative Effect of Change in Accounting Principal	1,878	-	-	-
Extraordinary Gain	(\$,719)	-	-	-
Net Income (Loss), After Cumulative Effects of Changes in Accounting Principals and Extraordinary Gain	\$1,119	(\$170)	(\$112)	(\$13)
Preferred Dividends & Accruals	51	-	-	-
Net Income (Loss) Applicable to Common Shares	\$1,068	(\$170)	(\$112)	(\$13)
Adjusted EBITDA	(\$9)	\$32	\$123	\$281
EBITDA Margin	-0.7%	2.4%	8.0%	15.3%

XO Communications, Inc.
Projected Consolidated Balance Sheet - Plan B

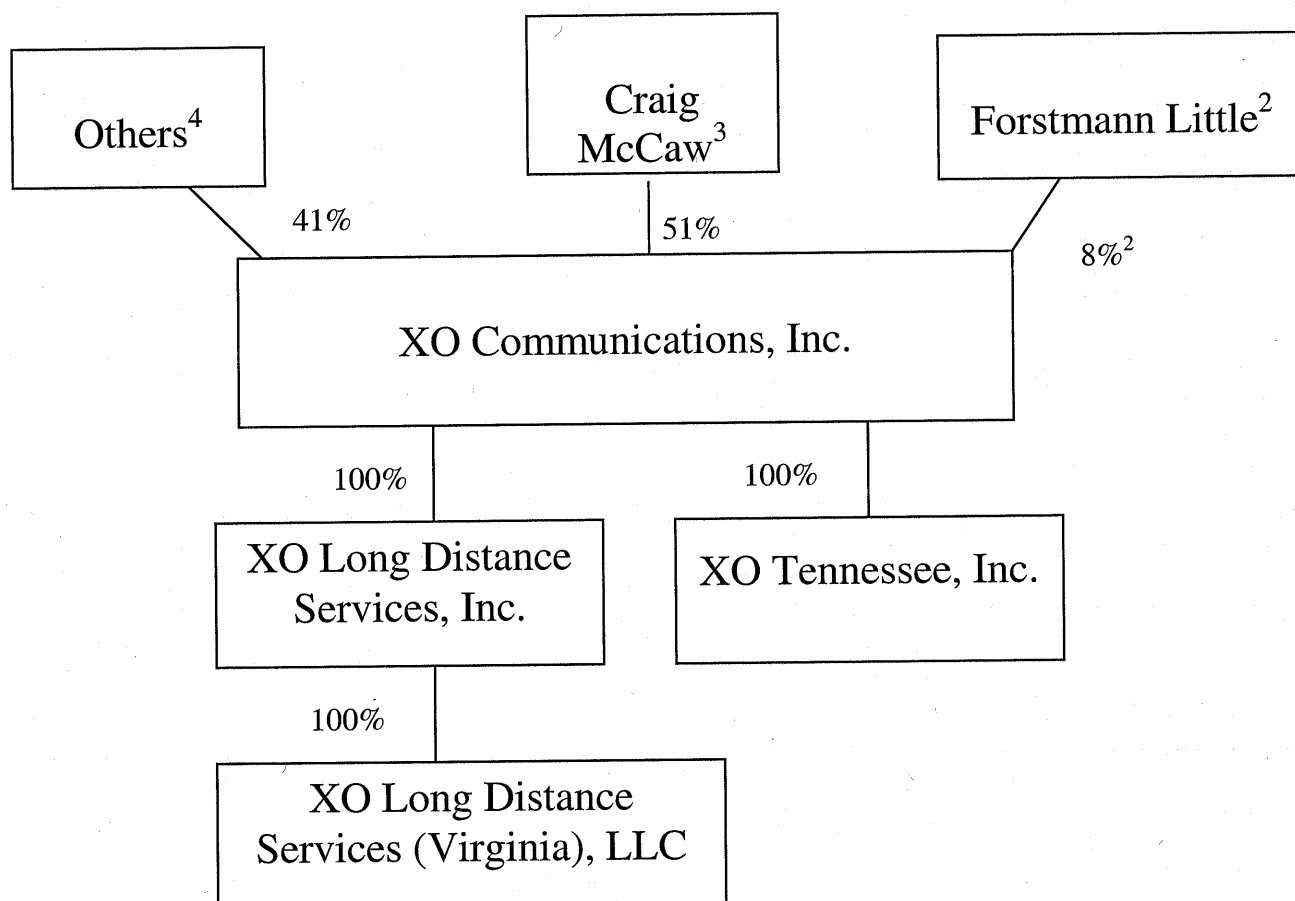
(\$ in millions)	Projected as of December 31			
	2002	2003	2004	2005
Assets				
Cash & Cash Equivalents	\$315	\$88	\$25	\$25
Accounts Receivable (net)	215	237	279	336
Other Current Assets	34	17	20	33
Total Current Assets	\$564	\$342	\$324	\$394
Net Property, Plant & Equipment	\$642	\$720	\$787	\$848
Net Investment in Fixed Wireless Licenses	67	64	62	60
Net Goodwill & Intangibles	123	123	123	123
Other Assets	17	14	11	8
Total Assets	\$1,403	\$1,264	\$1,306	\$1,414
Liabilities & Shareholders' Equity				
Accounts Payable & Accrued Liabilities	\$344	\$342	\$376	\$413
Accrued Interest	-	-	-	-
Other Current Liabilities	11	11	11	11
Total Current Liabilities	\$355	\$353	\$387	\$424
Long-Term Debt	\$527	\$580	\$731	\$835
Other Long-Term Liabilities	66	66	36	16
Total Liabilities	\$948	\$999	\$1,154	\$1,275
Total Shareholders' Equity	\$436	\$265	\$152	\$140
Total Liabilities & Shareholders' Equity	\$1,403	\$1,264	\$1,306	\$1,414

XO Communications, Inc.
Projected Consolidated Statement of Cash Flows - Plan B

(\$ in millions)	For the Projected Fiscal Period Ending December 31			
	2002	2003	2004	2005
Cash Flows From Operations:				
Net Income (Loss)	(\$1,060)	(\$170)	(\$115)	(\$13)
Adjustments to Net Income:				
Depreciation and Amortization	489	136	173	216
Pro Forma Fresh Start & Transaction Adjustments	308	-	-	-
Non-Cash Interest	119	53	39	65
Deferred Compensation	9	-	-	-
Changes in Non-Working Capital Assets & Liabilities	(301)	-	-	-
Changes in Working Capital	(23)	(33)	(38)	(42)
Net Cash Flows From Operations	(\$94)	(\$15)	\$81	\$127
Cash Flows From Investing Activities:				
Capital Expenditures	(\$300)	(\$211)	(\$237)	(\$266)
Other Investing Activities	-	-	-	-
Net Cash Flows From Investing Activities	(\$300)	(\$211)	(\$237)	(\$266)
Cash Flows From Financing Activities:				
Equity Issuance	(\$41)	50	50	50
Debt Issuance	-	-	92	47
Debt Repayment	-	-	-	(7)
Other Financing	(6)	-	-	-
Net Cash Flows From Financing Activities	(\$47)	50	92	50
Net (decrease) Increase in Cash	(\$441)	(\$276)	(\$63)	(\$90)
Cash and Cash Equivalents, Beginning of Period	\$753	\$314	\$59	\$26
Cash and Cash Equivalents, End of Period	\$314	\$88	\$25	\$25

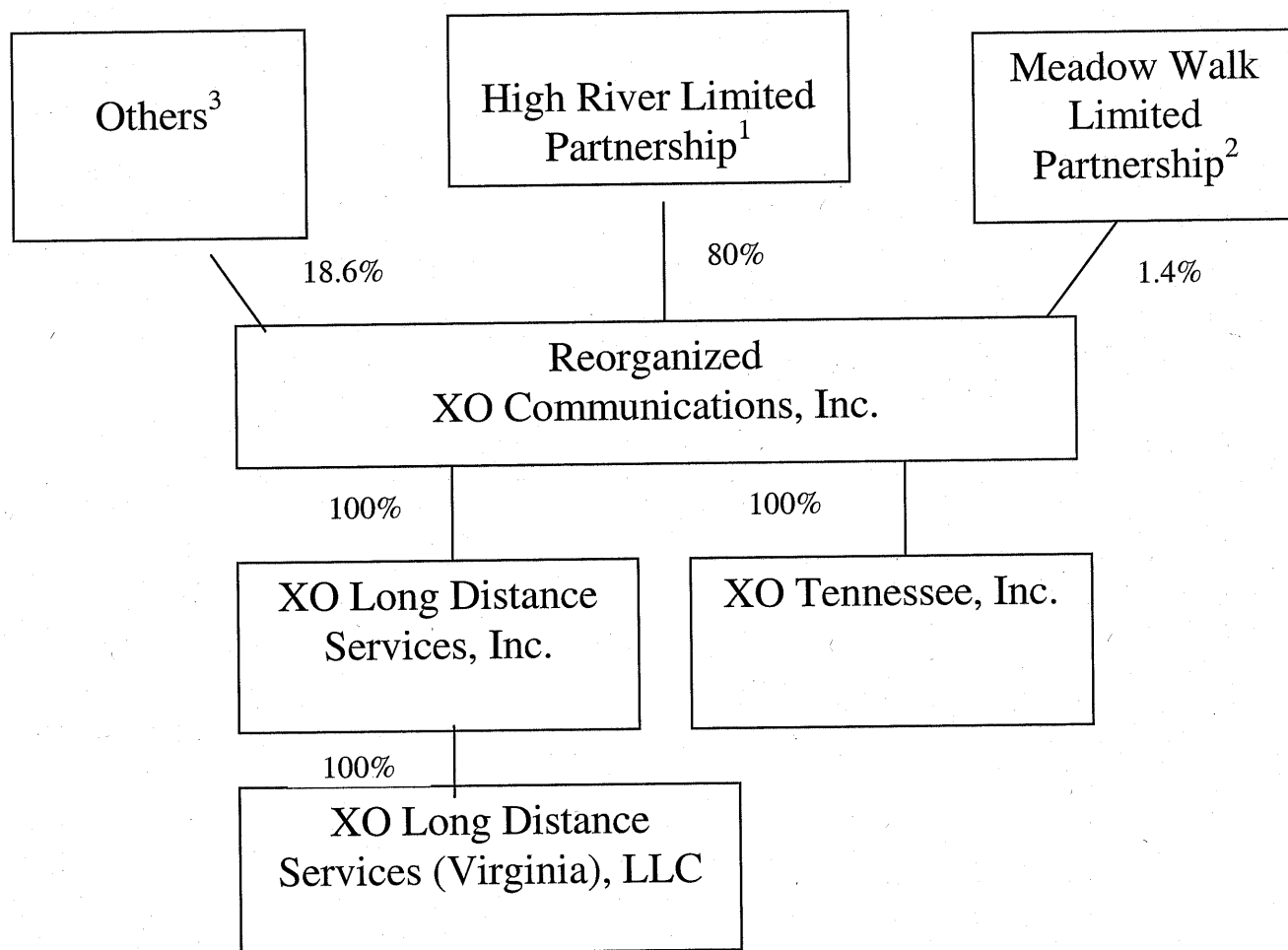
XO ORGANIZATIONAL CHARTS

XO Pre-Bankruptcy Reorganization¹



1. These diagrams show ownership as approximate percentages of the voting interests in XO Communications, Inc. ("XO")
2. Forstmann Little & Co.'s interest is held primarily by Forstmann Little & Co. Equity Partnership-VI, L.P. and Forstmann Little & Co. Subordinated Debt and Equity Management Buyout Partnership-VII, L.P. Minor interests held by persons affiliated with Forstmann Little & Co. also are included.
3. Prior to XO's bankruptcy, Craig McCaw controlled XO through his ownership interest in Eagle River Investments, L.L.C., through other holdings of XO securities and pursuant to various voting arrangements, the primary one with shareholder Wendy P. McCaw, his former wife. Mr. McCaw holds a proxy to vote the number of shares of XO stock held by Mrs. McCaw necessary for Mr. McCaw to hold 51% of the interest in XO. However, in light of XO's current Debtor-in-Possession status, Mr. McCaw's control of XO is very limited.

XO Post-Bankruptcy Reorganization Under the Stand-Alone Plan



1. Upon issuance of the initial Reorganization Common Stock, High River Limited Partnership ("High River") will be issued no less than 80% of the equity of Reorganized XO Communications, Inc. ("Reorganized XO"). At the time the Rights Offering expires, High River will, in any event, still control in excess of 50% of the total issued and outstanding Reorganization Common Stock.
2. Meadow Walk Limited Partnership and High River may distribute their stock of Reorganized XO to Cardiff Holding LLC.
3. No other shareholder is expected to hold 10% or more of the initial Reorganization Common Stock.

VERIFICATION

I, Cathleen A. Massey, am Vice President – External Affairs and Assistant General Counsel of XO Communications, Inc. and am authorized to represent it and its subsidiaries, and to make this verification on their behalf. The statements in the foregoing document relating to this company and its affiliates, except as otherwise specifically attributed, are true and correct to the best of my knowledge and belief.

I declare under penalty of perjury that the foregoing is true and correct.

Subscribed and sworn to before me this _____ day of _____, 2002.

Notary Public

My Commission expires: _____

VERIFICATION

I, Edward E. Mattner, am an Authorized Signatory of Barberry Corp., general partner of High River Limited Partnership, and am authorized to represent it and High River Limited Partnership, and to make this verification on their behalf. The statements in the foregoing document relating to High River Limited Partnership and its affiliates, except as otherwise specifically attributed, are true and correct to the best of my knowledge and belief.

I declare under penalty of perjury that the foregoing is true and correct.

Subscribed and sworn to before me this _____ day of _____, 2002.

Notary Public

My Commission expires: _____